

application meets the following criteria, a rate increase, decrease, or rule change may be granted:

1. The rate must be adequate. This means the rate must generate sufficient premium to meet the expected claims and the expenses of the company.
2. The rate must not be excessive. The rate cannot generate windfall profits, but the company is allowed to earn a fair profit from their business.
3. The rate cannot be unfairly discriminatory. This means the insurance company cannot single someone out for special treatment. The rates must be uniformly applied to all similar insureds.

Before a rate change is approved, the Rate Regulation Branch undertakes a careful review of the insurance company's rate application. If the company is entitled to higher or lower rates in accordance with current Department of Insurance regulations, then a rate change request is granted.

If you feel that your insurance premium or rate is excessive or unfairly discriminatory, please contact our consumer hotline.

How Is Loss History Information Used?

When you apply for residential insurance, the insurance company will require you to disclose certain information on the application. Failure to provide accurate information may put you at risk for possible policy cancellation, nonpayment of claim, or premium increase. Such information as the construction type, the property age, square footage, and loss history of your home helps to determine the eligibility for insurance coverage and to establish the price of coverage according to the insurers’ underwriting guidelines and their filed rates. In addition, your insurance company may obtain loss history information from independent reporting agencies to check the validity of the claims history you reported on the application.

What If I Disagree with the Information Provided by the Reporting Agency?

If a report provided by an independent reporting agency results in an adverse underwriting decision taken by the insurance company, such as denying an application for insurance, your insurance company must inform you of your rights as required by California Insurance Code Section 791.10. In addition, your insurance company must give you the name, address, and telephone number of the reporting agency that provided the report.

Under the Fair Credit Reporting Act, you have the right to dispute the accuracy or completeness of any information furnished by the

independent reporting agency. You have the right to a free copy of the report from the reporting agency. The reporting agency must remove or correct inaccurate or unverified information after you dispute it. However, the reporting agency is not required to remove accurate and verified data from your file.

Can Credit Information be Used in Underwriting Homeowners Insurance?

The CDI is opposed to the use of credit scores, credit reports and other credit information in underwriting homeowners insurance. Concern centers on the use of credit scoring as a potential means of unfairly discriminating against specific populations. Currently, there are several pieces of pending legislation that attempt to address the use of loss history reports and credit scoring. The CDI will be following this issue closely and the Commissioner will continue to meet with key legislators on the proposed bills to protect the rights of California consumers.

Some Useful Tips

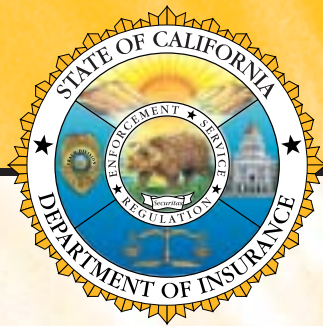
- Always read your policy.
- Make sure you understand all coverage elements, including exclusions and limitations to coverage.
- Ask your insurer or agent to clarify anything you do not understand.
- Conduct an annual insurance review when you renew your policy to ensure you have appropriate coverage.
- Keep your home well maintained.
- Consider increasing your deductible to save on premiums.

Insurance Information Guides

The CDI has several consumer information guides on the topics of residential insurance and title insurance. If you wish to obtain a copy, please visit our Web site www.insurance.ca.gov or contact our Consumer Hotline at 800-927-4357.

CALIFORNIA DEPARTMENT OF INSURANCE
Consumer Communications Bureau
300 South Spring Street, South Tower
Los Angeles, CA 90013

800-927-HELP



What You Need to Know about Today’s

Homeowner’s Insurance Market

Toll Free 800-927-HELP
T.D.D. 800-482-4TDD
www.insurance.ca.gov



Letter From The Commissioner

Dear Fellow Homeowners:

To address growing problems with the availability and affordability of homeowner's insurance, I have created the "Homeowner's Bill of Rights." This consumer protection tool was launched in April, providing strong regulatory and informational elements geared to protect you and what is likely your most valuable asset, your home.

Homeowner's Bill of Rights – Key Features

Use it and Lose it – Homeowners often fear that filing a legitimate claim may result in the non-renewal of their policy, or a skyrocketing premium. They also fear that a simple inquiry about coverage may have the same negative impact. The Homeowner's Bill of Rights reinforces existing laws, which requires insurers to evaluate the risk of future loss by considering only substantiated loss or claims information. Simple inquiries regarding coverage are not to be included. In addition, insurers must consider whether a loss was repaired or remedied before using it to non-renew a policy.

Loss History Reports – These are electronic reporting and tracking of a consumer's insurance claims history. The Comprehensive Loss Underwriting Exchange (CLUE) and A-Plus databases are used by many insurers to mechanize the underwriting process. Currently the Federal Fair Credit Reporting Act provides you with the right to view and correct information on a CLUE or A-Plus report. The Homeowner's Bill of Rights strongly directs insurers to use these tools appropriately, and ensures that proper consumer protections are in place to regulate the use of loss history data.

Credit Scoring – I am opposed to the use of credit information to rate or underwrite homeowners insurance. I am sponsoring legislation to outlaw the use of credit information in rating and underwriting homeowner insurance; a practice I believe has the potential to be discriminatory and unfair.

Title Insurance – Protecting your ability to make the most of your real estate assets is a priority. The cost of title insurance is high, even for a simple refinance. I have launched a comprehensive review of the rates charged by title insurers to determine if they are excessive.

Be Informed – Information provides you with valuable protection. I will be conducting town hall meetings and consumer education events and producing electronic and print materials that offer you tools to help you help yourself. I hope you will find the information in this guide helpful in understanding today's homeowners insurance market.

I encourage you to take advantage of the services we offer, including our Web site at www.insurance.ca.gov where you can find a wealth of information to help you further protect your rights and your assets. Remember, the officers at our consumer hotline are there to help you; call them at (800) 927-HELP (4357) when you need assistance.

Thank you for giving me the opportunity to serve you.

John Garamendi, Insurance Commissioner

What You Need to Know about Today's Homeowner's Insurance Market

Understanding the Insurance Market

Over the past few years, the residential insurance market has experienced some very difficult times. There are a variety of factors that have affected residential insurers' ability to offer insurance to consumers. When consumers have difficulty finding affordable insurance or just finding insurance at all, it is usually representative of what is called a hard market.

A hard market can be caused by many contributing factors including, but not limited to: reduced competition, decreased investment income, a poorly performing stock market, increased loss exposure, catastrophic losses, increased construction costs, insufficient rates, poor management practices, poor underwriting practices, or increased fraud. By all accounts, residential insurance is currently experiencing a hard market.

During a hard market, insurance affordability and availability become a major issue for consumers. Premiums for insurance rise and insurers tighten their underwriting guidelines. Usually more policies are non-renewed, fewer policies are offered, insurers limit or restrict coverage, and available policies are offered with higher deductibles and lower policy limits.

On the other hand, a competitive or soft market is identified by an increased capacity to underwrite insurance business resulting in increased availability and affordability of insurance. If competition becomes too hot, then insurance rates may become insufficient to pay out on future claims, threatening an insurer's financial solvency and stability.

Successful insurance regulation helps stabilize the underwriting cycle so there are less hills and valleys. However, since the insurance industry is not immune to the market forces of the state, national, or world economies, this is a very difficult challenge and oftentimes a very precarious balancing act. The CDI is taking steps to minimize the effects of this current hard market. If you are experiencing any problems with your homeowners coverage, please contact us.

How Are Rates Approved?

Before a rate increase or decrease is approved, licensed companies must submit a great deal of supporting documentation (statistical data) to the California Department of Insurance (CDI). If the request is not supported, then the CDI will either reject the request outright or suggest that the insurers reevaluate and resubmit with further information. If the